



An Audit of the **Public Utility Commission of Texas**

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Executive Summary

Purpose and Scope

The objectives of the Public Utility Commission of Texas (Commission) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from June 1, 2017, through May 31, 2018.

Background

The mission of the Public Utility Commission of Texas is to protect customers, foster competition and promote high quality infrastructure. The Commission regulates the state's electric, telecommunication, and water and sewer utilities, implements legislation, and offers customer assistance in resolving consumer complaints.


Public Utility Commission of
Texas website
<https://www.puc.texas.gov/>

Audit Results

The Commission generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with travel, fixed assets or security. However, the Commission should consider making improvements to its payroll, purchase, contracts, direct deposit authorizations and controls over expenditure processing.

Auditors reissued one finding from the last audit conducted at the Commission related to control weakness over expenditure processing. Auditors originally issued this finding in August 2014. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Missing verification of prior state service	Compliant, Findings Issued
<u>Purchase Transactions</u>	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Missing purchase agreement	Compliant, Findings Issued
<u>Contract Transactions</u>	Did contracts and related payments comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing procurement and contract documentation. • Texas Ethics Commission Form 1295 signed after contract award date. 	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did the Commission comply with the federal mandate to handle payments involving the international movement of funds?	Two out of 10 direct deposit authorizations were incomplete	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting system?	No issues	Fully Compliant
Security	Did all system access to process payments comply with Comptroller security guidelines?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Two employees with overlapping security access for multiple duties	Control Weakness Issues Exist



Repeat Finding



Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- Research and verify prior state service time for employees and ensure all prior service verifications are properly documented, accurate and maintained in the personnel files.
- Ensure that documentation of a purchase is prepared at the time the goods or services are ordered from the vendor.
- Ensure that all required contracting documentation is maintained for all procurements and that all contracting requirements are performed timely.
- Ensure that all payees who request direct deposit payments submit a completed, signed direct deposit authorization form with the international payment verification question answered.
- Review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure that no individual is able to process payments without oversight.



Detailed Findings

Payroll Transactions

Auditors developed a sample of 30 employees and 167 transactions totaling \$574,244.72 to ensure the Commission complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions. Additionally, a limited sample of 14 voluntary contribution transactions was audited with no exceptions identified.

Missing Verification of Prior State Service

In a review of a report outside the sample, auditors identified one employee missing prior state service verification, though the employee did list prior service on the job application. Upon verification, the employee did not have a change in longevity pay. The Commission stated this was an oversight.

When an agency hires an employee, the agency must research whether the employee has prior state service. If prior service exists, the agency must confirm the amount of lifetime service credit and compute the correct amount of longevity pay.

If the agency fails to do this, the lifetime service credit for longevity will be based on the employment date at the new agency and the employee may be underpaid longevity pay. See [Texas Payroll/Personnel Resource – Required Documentation](#).

Recommendation/Requirement

Auditors recommend the Commission research and verify prior state service time for its employees. In addition, the Commission should ensure all prior state service verifications are properly documented, accurate and maintained in the personnel files.

Commission Response

Once an employee has accepted an offer of employment, the Sr. HR Generalist is responsible for sending pre-employment data forms to the new employee. The Sr. HR Generalist will review the employment history on the application and begin to send out prior state employment verifications if there is prior state employment. Upon receipt and completed employment data forms from the new employee that include the Social Security number and prior state service, the Sr. HR Generalist will check the State of Texas Employment History through the CPA to verify that all prior state service is captured for verification and matches what the new employee reported. All of the verification of prior state service is entered in CAPPs by the Sr. HR Generalist and verified by the Payroll Accountant.



Purchase Transactions

Auditors developed a sample of 38 purchase transactions totaling \$531,458.84 to ensure the Commission complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed three exceptions totaling \$1,411.83 in these transactions.

Missing Purchase Agreement

During the audit of purchase transactions, auditors identified three transactions totaling \$1,411.83 that were not supported by a purchase agreement/purchase order. The Commission used a blanket purchase order to encumber a pool of money for the purchase of awards for its employees. As the Commission dispensed each award, it should have created individual purchase orders for each specific purchase and liquidated the blanket purchase order. However, it did not do this.

According to the Commission, it decided to discontinue this practice some time after processing this purchase.

A purchase agreement/purchase order is a contract between the Commission and the vendor. When the Commission enters into a contract for goods or services with a vendor, expenditures under the contract may not exceed the established limit. The Commission may amend a contract and pay additional amounts only if the vendor provides an additional benefit to the Commission. Any amendments to the original agreement should be documented.

Without a purchase agreement/purchase order, it is difficult for the Commission to ensure it was not overcharged or billed for goods or services beyond those it agreed to purchase. See [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#).

Recommendation/Requirement

The Commission must prepare purchase documentation at the time the goods or services are ordered from the vendor. Once the Commission has processed a final approved purchase order with the vendor, the Commission may not pay any amount in excess of the agreed-upon amount unless the purchase order is amended due to the vendor providing a new benefit to the Commission.

Commission Response

The PUC Financial Resources department (purchasing) has implemented a process that no longer allows blanket purchase orders for commodity purchases, only services.



Contract Transactions

Auditors reviewed two contracts totaling \$18,319,775 from the Commission's legal and technical consulting services.

One of the contracts is administered by the Commission, but payments are made by third parties (utility companies regulated by the Commission). Texas Utilities Code, Sections 39.408, 39.4525 and 39.504 gives the Commission authority to enter into these agreements. The contract terms require the vendor to submit its invoices to the Commission, which reviews and approves the invoices before directing the utility companies to make the payments. The utility companies are not involved in any other aspects of the contract, such as initial planning, solicitation, vendor selection or administration.

Auditors reviewed all phases of contract development, planning, solicitation, award and payments for compliance with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed exceptions for this group of transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$18,000,000	Legal Consulting Services	No exceptions	No exceptions	<ul style="list-style-type: none">• Missing SAO nepotism disclosure statement.• Missing written approval for supplemental CMBL.• Missing evidence of Vendor Performance Tracking System (VPTS) search results.• Warrant/payment hold check not performed.• Texas Ethics Commission Form 1295 signed after contract award date.	No exceptions	No exceptions
Contract B	\$319,775	Technical Consulting Services	No exceptions	No exceptions	<ul style="list-style-type: none">• Missing evidence of Vendor Performance Tracking System (VPTS) search results.• Warrant/payment hold check not performed.• Missing required contract clauses.	No exceptions	No exceptions



Missing Procurement and Contract Documentation

Both contracts selected for review were missing specific required documentation, detailed below.

Missing State Auditor's Office (SAO) Nepotism Disclosure Forms

Auditors identified one contract for \$18,000,000 where the Commission failed to complete and sign the SAO Nepotism Disclosure form for each employee involved in the procurement of contracts valued at \$1 million or more. Without the form in place, the procurement might not be fully in compliance.

[Texas Government Code, Section 2262.004](#) requires state agency purchasers to disclose relationships that might pose a conflict of interest in awarding a major contract. See [State of Texas Procurement and Contract Management Guide](#), Agency Review of Required Disclosures section. The Commission's policies and procedures did not originally contain a provision for use of the SAO Nepotism Disclosure form. As a result of the audit, the Commission will use the SAO form and will discontinue using its current nepotism disclosure statement.

Recommendation/Requirement

The Commission should update its contracting procedures to require purchasing personnel working on contracts valued at \$1 million or more to disclose any relationship with the selected vendor (or any employee, stockholder, contractor, etc.) to the administrative head of the Commission on the SAO Nepotism Disclosure form. The Commission should maintain the form as part of the procurement file.

Commission Response

Going forward, the agency will use the SAO nepotism disclosure statement form and discontinue using its current statement.

Missing Written Approval for Supplemental CMBL

One of the contracts was awarded to a vendor that was not on the Centralized Master Bidders List (CMBL). Auditors did not find written approval from the Commission head or designee authorizing use of a non-CMBL vendor. The Commission's policies and procedures did not originally include the requirement to obtain written approval to supplement the CMBL. As a result of the audit, the Commission updated its procedures to reflect this requirement.

Additions to the CMBL, including written approval from the agency head or designee to supplement the CMBL, must be maintained in the procurement file. See [State of Texas Procurement and Contract Management Guide](#) – Centralized Master Bidders List – Supplementing the CMBL.



Failure to document the Commission head's authorization of additions to the CMBL increases the risk of reputational damage to the state or the Commission. Absent such documentation, which should include an explanation of the need to add non-CMBL vendors, non-winning bidders on the CMBL may feel that the money and effort expended for CMBL registration was wasted, and that the state's CMBL provides no competitive advantage in bidding opportunities.

Recommendation/Requirement

The Commission should modify its contracting procedures to maintain documentation of the executive director's approval to add non-CMBL vendors to the bid list. Such documentation should also include an explanation of why the Commission needed to add non-CMBL vendors.

Commission Response

These procedures have been modified to maintain documentation of the Executive Director's approval to add non-CMBL vendors to the bid list, as well as include an explanation of why the Commission needs to add the non-CMBL vendors.

Missing Contract Clauses

Auditors identified one contract that did not include some required contract clauses. The contract was missing the required wording under the Disclosure of Prior State Employment clause, the False Statements clause and the Former Agency Employees clause. These required contract clauses are essential to protect the interest of the state. The Commission was not aware that these clauses are required.

The Texas Required Contract Clauses must be included in both solicitations and contracts. The wording of the Texas Required Contract Clauses must substantially conform to the standard text or alternate text as stipulated in the [State of Texas Procurement and Contract Management Guide](#) – Appendix 22.

Recommendation/Requirement

To continue to protect the interest of the state, the Commission must ensure that all future contracts include all of the applicable required clauses.

Commission Response

These procedures will be modified to ensure that all future contracts include all applicable required clauses.



Missing Evidence of Vendor Performance Tracking System (VPTS) Search Results

Neither contract file contained evidence that the Commission evaluated the vendor performance reports under the VPTS before awarding the contracts. The Commission's policies and procedures did not originally require vendors to be checked on the VPTS. Because of the audit, the Commission has implemented the VPTS for request for proposals (RFP) review on selected vendors since fiscal 2018.

Incorporating the review of the vendor performance report before awarding a contract allows the Commission to identify vendors with exceptional performance that meet all contract obligations, and also protects the state from contracting with vendors who have demonstrated substandard performance on previous state contracts. To verify use of best value standards, the Commission should evaluate a vendor's performance in terms of criteria presented in the VPTS. See [34 Texas Administrative Code Section 20.217\(a\)](#). The Commission must consider all the information collected and evaluated before awarding a contract.

Recommendation/Requirement

The Commission should enhance its policies and procedures to ensure vendor performance reports are evaluated before awarding a contract. A dated copy of the review results from the specified website must be retained as evidence and included in the procurement file.

Commission Response

At the beginning of FY 2018, the Commission had implemented the Vendor Performance Tracking System (VPTS) for RFP review on all vendors. This system ensures vendor performance reports are evaluated before a contract is awarded, and dated copies of the review results are retained and included as part of the procurement files. The contracts selected for the audit were awarded in FY16 and FY17, prior to the implementation in FY18 of the Commission's review of the VPTS.

Missing Warrant/Payment Hold Check

Auditors identified two contracts where the Commission failed to verify the vendor's warrant hold status before contract execution. The Commission's policies and procedures did not originally require performing a warrant/payment hold check before awarding a contract to a vendor. As a result of the audit, the Commission's procedures have been updated to include a warrant/payment hold check.

State agencies must check the warrant hold status of a vendor if the transaction involves a written contract. [Texas Government Code, Section 2252.903\(a\)](#) requires state agencies to determine whether a payment law prohibits the Comptroller from issuing a warrant or initiating an electronic funds transfer to a person before entering into a written



contract with that person, and to make that determination no earlier than the seventh day before and no later than the date of the contract. See [State of Texas Procurement and Contract Management Guide](#) – Appendix 30. The determination must be made in accordance with the Comptroller's requirements.

Contracts and supporting documentation must be retained for seven years after expiration or termination. See [Texas Government Code, Section 441.1855](#), and [State of Texas Procurement and Contract Management Guide](#) – Records Retention.

Recommendation/Requirement

The Commission must follow procurement procedures to verify vendor warrant hold status before executing a contract with a vendor.

Commission Response

The procurement procedures have been updated to include a warrant/payment hold status before any contract may be executed.

Texas Ethics Commission (TEC) Form 1295 Signed After Contract Award Date

For one of the contracts awarded, the winning bidder did not file TEC Form 1295 before the contract award. [State of Texas Procurement and Contract Management Guide](#) requires vendors to complete Form 1295, Certificate of Interested Parties, for certain contracts valued at \$1 million or more. The Commission's policies and procedures did not originally require a signed TEC Form 1295 before the contract award date. As a result of the audit, the policies and procedures have been updated to reflect this requirement.

Without the form, the Commission might inadvertently contract with a vendor that has an undisclosed financial interest in the contract or with a Commission employee. This may create a conflict of interest either in fact or in appearance, and the vendor may not be providing best value to the state.

Recommendation/Requirement

The Commission should ensure TEC Form 1295 is completed and filed by the vendor for applicable contracts, and acknowledged and reviewed by Commission staff before the contract is awarded and signed.

Commission Response

The procedures have been updated to ensure that the TEC form 1295 is completed and filed by the vendor for applicable contracts, and also acknowledged and reviewed by Commission staff prior to the contract being awarded.



Travel Transactions

Auditors developed a sample of 30 travel transactions totaling \$7,353.72 and a sample of 22 non-overnight travel transactions totaling \$402.38 to ensure the Commission complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Targeted Analysis

The audit included a review of various special reports run for the Commission outside the sample. Audit tests revealed the following exceptions in the targeted analysis portion of the audit.

Incomplete Direct Deposit Authorization Forms

Auditors reviewed the Commission's procedures to comply with the federal mandate to properly identify and handle payments involving the international transfer of funds.

Auditors selected 10 Direct Deposit Authorization Forms for review, which included employees and vendors. Two of the forms were not properly completed – one for an employee and one for a vendor. Without a properly completed form on file, the Commission was unable to indicate whether state funds were forwarded to a financial institution outside the United States. The Commission stated that this was an oversight. As a result of the audit, the Commission has been more diligent in ensuring that this section of the direct deposit form is completed.

The [Office of Foreign Assets Control \(OFAC\)](#) requires that all direct deposit payments transmitted outside the United States be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the United States.

International automated clearing house transactions (IATs) are payments destined for a financial institution outside of the United States. The Comptroller's office does not participate in IATs. If a payee informs an agency that a payment is destined for a financial institution outside the United States, the agency may not set up that payee for direct deposit.

Recommendation/Requirement

The Commission must ensure all payees who request direct deposit payments submit a completed, signed Direct Deposit Authorization form with the international payment verification question answered.



Commission Response

The PUC migrated to CAPPs in July 2019, and the employees now enter their direct deposit information through the Employee Self-Service section of the CAPPs Personnel/Payroll module. The employee receives CAPPs training on Employee Self-Service as part of the new employee orientation and receives specific training on how to enter direct deposit information. On the direct deposit tab, the employee is required to check off the international payment box. If the employee inadvertently marks yes, the employee is automatically locked out of the section and is required to have it reset by the Payroll Accountant. For vendors, the Commission has been more diligent in ensuring this part of the form is properly completed by the vendors.

Fixed Assets

Auditors developed a sample of 10 transactions to test for accurate reporting and to verify the existence of assets. All assets tested were in their intended location. Audit tests revealed no exceptions in these transactions.

Security

The audit included a security review to identify any of the Commission's employees with security in the Uniform Statewide Accounting System (USAS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no exceptions in these transactions.

Internal Control Structure

The review of the Commission's internal control structure was limited to obtaining reports identifying current users' access. The audit tests conducted revealed the following exception in user access.

Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Commission placed on its accounting staff's ability to process expenditures. Auditors reviewed the Commission's security in USAS, the Uniform Statewide Payroll/Personnel System (USPS), Texas Identification Number System (TINS) and voucher signature cards in effect on Feb. 26, 2019.

The Commission had two employees with incompatible security capabilities. Both employees could edit/update vendor profiles in TINS and were on the Commission's signature cards. Both employees could release/approve payments in USAS and create/edit a vendor in TINS. One of the employees could enter/edit a payment voucher in USAS and create/edit a vendor in TINS.



The Commission stated that it is a small agency and though it tries to avoid conflicting roles, reduced accounting staff makes this situation unavoidable.

Auditors also ran a report to determine whether any of the Commission's payment documents processed through USAS during the audit period because of the action of only one person. No issues were identified.

Recommendation/Requirement

The Commission should review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure no individual is able to process payments without oversight.

Auditors strongly recommend that the Commission implement the following:

- Limit the access of users who can approve paper vouchers (by being on the signature card) to view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile and approve a payment.
- Limit the access of users who can release/approve a batch in USAS to view-only access in TINS (PTINS02). An individual must not be able to approve a payment and create or change a vendor profile.
- Limit the access of users who can enter/change a voucher in USAS to view-only access in TINS (PTINS02). An individual must not be able to create a payment and create or change a vendor profile.

Commission Response

The Commission understands and continues to review our internal controls. We have contacted the Texas Comptroller's Office for resources and guidance on separation of duties within the Financial Resources department for continued compliance including the preventative control mechanism. While this is a difficult area to comply with for most small/mid-size state agencies that have limited staff to complete the various tasks of the various accounting duties, we will continue to ensure our internal controls are adequate to prevent any fiscal misconduct.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Reporting System (SPRS),
 - Human Resource Information System (HRIS) or
 - The Centralized Accounting and Payroll/Personnel System (CAPPs).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Public Utility Commission of Texas (Commission) payroll, purchase, procurement and travel transactions that processed through USAS and USPS from June 1, 2017, through May 31, 2018, to determine compliance with applicable state laws.

The Commission received appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.